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SUBJECT: LIBERIA: GOL ANNOUNCES PRICE CUTS AND TAX CUTS

REF A)MONROVIA 90; B) 08 MONROVIA 629; C)08 MONROVIA 647

11. SUMMARY: The Liberian Ministry of Commerce lowered price ceilings on rice, petroleum and cement on January 29. The cuts come three days after the President announced a decrease in business and personal tax rates during her annual "State of the Nation" address January 26 (ref A). The President also announced that the GOL will end the monopoly on rice imports, and described a \$1 million facility at the Central Bank to ensure continuous supply of both imported and locally produced rice. These initiatives continue the GOL efforts to buffer Liberian consumers from the impact of the global financial crisis and the trend towards more market-based responses to price fluctuations, but fall short of removing restrictions on sale of "strategic" commodities. END SUMMARY.

Taxes Down

12. In her annual "State of the Nation" address to the legislature on January 26 (ref A), President Sirleaf previewed the revised Revenue Code by revealing plans to reduce business and personal income taxes from 35% to 25%; and to reduce the presumptive tax on business with turnovers exceeding LD\$201,000 (\$3,190) from 4% to 2% of their gross quarterly income. This fiscal reform follows an increase in the civil service minimum salary (to \$70 a month, in the July 2008 budget). Ref B reported waiver of taxes on salaried income of \$70 and below in August 2008, a more fiscally sound way than the traditional price caps to address the surge in food and fuel prices than.

Prices Down

13. (U) The GOL attempts to control the price of "sensitive" commodities such as rice, fuel and cement, but responded to last summer's surge in prices by acknowledging market forces and raising prices. There had since been criticism that the price ceilings were not dropping in conjunction the reduction in world market prices. On January 29, the Ministry of Commerce released new price ceilings, with an 8.5% reduction in the retail price of a 50kg bag of butter rice. Below is the new price structure:

Product	Former Price	New Price
Butter Rice	\$35.00	\$32.00
Cement	10.50	9.50
Gasoline (PMS)	2.75	2.50
Diesel (AGO)	3.30	3.00

14. MOCI promised further price decreases if world prices decline. (Note: The GOL eliminated the tariff on rice prices in 2008 to help control price increases, with forgone revenue of \$9 million, and has taken other steps to boost food production and ease import of basic machinery and agricultural equipment. End note.)

15. MOCI and Liberia's monopoly wholesale cement company (CEMENCO) also reduced the retail price of cement to \$9.50 (from \$10.50) a 50 kg bag. Cement has been in the news recently as MOCI cracked down on distributors who were selling short-weight bags, and CEMENCO ran ads encouraging firms to have a reliable agent accompany bags from the factory to the store to avoid siphoning off of cement en route.

¶16. The 25-cent reduction in the price of gasoline and 30-cent reduction in diesel fuel take effect February 6 and mark the sixth round of price cuts in petroleum products, since the peak in mid-2008.

Markets Opened

¶17. The GOL has not only controlled rice prices, it has restricted imports (and retail distribution, which is still limited to Liberian firms only.) In 2006, the GOL gave the monopoly on rice importing to the Liberian-owned Sinkor Trading Company. (Comment: which may not have had the financial strength for the task. End comment.) Prior to that, imports had been dominated by Lebanese merchants.

¶18. In a recent meeting of the Economic Revitalization Committee that comprises GOL, foreign partners, civil society and private sector representatives, there was lively debate on the validity of price ceilings for rice. Rice has a tradition of political sensitivity and conventional wisdom holds it was an underlying cause of Samuel Doe's 1980 coup. At the ERC, a Deputy Minister of Labor said it was time to look beyond rice as a cause of the coup, and lift price controls. It was agreed the topic merited fuller discussion.

¶19. In her speech, the President also announced a \$1 million facility at the Central Bank to purchase paddy rice from local producers and stimulate production in the coming planting season. The GOL will also launch a pilot program (Note: suggested by the Ambassador. End note) to provide land to ten citizens of each county (except Montserrado) who are currently living in Monrovia but are willing to return to farming. Those selected will be provided five acres of land in their home county, with seeds and cuttings to plant food and cash crops.

¶10. Comment: The decrease in the prices of "strategic" commodities is a relief for consumers. Ultimately, however, the GOL's efforts to control basic commodities leaves the economy more vulnerable to temporary supply and price anomalies. Nascent discussion on a longer-term move to more completely liberalize markets and prices in these sectors is a welcome development.

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